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RUEHBJ/AMEMBASSY BEIJING 0695
RUEHBS/AMEMBASSY BRUSSELS 1254
RUEHBY/AMEMBASSY CANBERRA 0576
RUEHCV/AMEMBASSY CARACAS 0265
RUEHDK/AMEMBASSY DAKAR 1346
RUEHLO/AMEMBASSY LONDON 1359
RUEHMO/AMEMBASSY MOSCOW 0700
RUEHNR/AMEMBASSY NAIROBI 6508
RUEHNE/AMEMBASSY NEW DELHI 0469
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RUEHFR/AMEMBASSY PARIS 1218
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C O N F I D E N T I A L SECTION 01 OF 02 PRETORIA 003907

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DEPT FOR AF/S AND EEB/ESC/IEC/EPC - GLENN GRIFFIN
DOE FOR G.PERSON, C.GAY, AND T.SPERL

E.O. 12958: DECL: 11/07/2017
TAGS: EPET EMIN PGOV ENRG SF
SUBJECT: ECONOMIC EMPOWERMENT, NOT RESOURCE NATIONALISM

REF: STATE 150999

Classified By: ECONOMIC COUNSELOR PERRY BALL FOR REASONS 1.4 (B) AND (D
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¶1. (C) SUMMARY: In response to reftel request for information, the South African Government (SAG) does not practice overt "resource nationalism" as in nationalization, but the state is exercising a greater role in resource development and control, and in effect is imposing "resource affirmative action and statism". South Africa relies on the private sector to develop the bulk of its resources. Resource legislation and regulation is the result of a negotiated outcome between industry and government, intended to open up and normalize the sector and redress social legacies. End Summary.

Resource Affirmative Action

¶2. (C) South Africa is not a major producer of oil and gas, the traditional domain for resource nationalism. However, it is a major producer of mineral resources and has a robust coal- and gas-to-liquids infrastructure. South Africa is the world's number one producer of platinum-group minerals, chrome ore, manganese ore, and gold. It is a major producer of diamonds and other minerals, but both gold and diamond production - as mature industries - are in decline. SAG resource policy is based on the following key imperatives:

-- Increase "Black Economic Empowerment" (BEE) of previously disadvantaged individuals via mandated quotas of ownership, management, employment, industrial supply, and social programs;

-- Increase beneficiation of South African resources, particularly minerals, including uranium, diamonds, platinum, gold, coal, and others; and

-- Insure adequate supply of resources and electricity to support economic growth.

¶3. (C) The Minerals and Petroleum Resource Development Act of 2004 and implementing regulation calls for all existing oil, gas, and minerals production licenses to be "converted" from the old to the new system of resource ownership by 2009, based on the satisfaction of BEE and other social imperatives. Whereas companies previously owned mineral resources, the new law shifts custodianship to the state, which licenses tenure for a defined period, consistent with international norms. In taking over effective ownership of resources, and exercising greater control, the SAG has implemented a "taking" of owners' rights. The SAG has also commenced jaw-boning the industry for more local beneficiation and has proposed offering new licenses with varying government royalty rates and BEE "credits" based on beneficiation and other considerations. (Comment: The outcome of SAG pressure on mining and other companies to enact beneficiation, in addition to BEE requirements, given the mining companies' potential recourse to the legal system, is still unclear and "in play". End Comment.)

Role of the State
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¶4. (C) One key element of resource control is that the state remains a preeminent player in the minerals and energy sector. State-owned electricity company Eskom will remain the single buyer and major producer of electricity. The SAG does call for potential future provision of electricity for

up to 30 percent from the private sector via Independent Power Producers (AES is the recently designated preferred provider for two gas-fired facilities in Durban and Coega). Eskom will tender for suppliers of new nuclear build (for which Westinghouse is one of two identified leading contenders for supplying new Pressurized Water Reactors - PWR). The SAG is a share-holder and cheer-leader for development of new Pebble Bed Modular Reactor (PBMR) technology as part of new nuclear build. PetroSA is the state oil and gas exploration company and it also operates the world's largest gas-to-liquid plant (which has secured domestic gas resources through 2016, some in partnership with U.S. company Pioneer Resources). "National champion" Sasol, developer of coal-to-liquid technology, was privatized in
¶1979. Key transportation service providers (air and rail) remain with the state.

Not the Chavista Model

¶5. (C) Chamber of Mines Economist Roger Baxter told Minerals/Energy Officer that new mining and resource policy in South Africa was a far cry from the Hugo Chavez model. He described it as negotiated, rather than imposed, with industry taking the lead in working with the new democratic government in 1994. Baxter said the negotiated, pragmatic outcome (Mining Charter and Minerals Act enacted in 2004) addressed historical legacies and normalized and opened up the mining sector according to international standards. He said government policies had nothing to do with the current bull market in commodities; rather, it harked back to the 1955 ANC Freedom Charter, which asserted that mineral wealth should benefit and belong to the people. Baxter characterized current pressure on mining companies to enact local beneficiation as more akin to resource nationalism. He noted that SAG beneficiation incentive schemes were still under discussion, but Treasury had opposed preferential royalties. Baxter said the mining industry had already achieved 20 percent BEE ownership, compared to the mandated targets of 15 percent by 2009 and 26 percent by 2014.

There Are Degrees of Resource Nationalism

¶6. (C) Comment: South Africa has not imposed overt nationalization (although industry feared it in 1994 with the new democratic government), but the SAG exercises increasing intervention, control, social imperatives, and regulation, based on gaining greater benefits for its relatively poor population. Rising commodity prices do not appear to overtly drive SAG resource policy, unlike elsewhere in the world. South Africa relies on the private sector and seeks to follow international norms for resource exploitation. Most companies view BEE as a reasonable cost of doing business in South Africa and are open to some local beneficiation. The
QSouth Africa and are open to some local beneficiation. The
SAG's commitment to deliver jobs and wealth to previously disadvantaged peoples as part of redressing its unique historical legacy is understandable. End Comment.
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